

Financial Planning Guide



For teachers who are
approaching retirement

Let us be the first to offer you our very best wishes for a long and fulfilling retirement.

At Teachers Assurance, we have been helping retiring teachers for many years and recognise the contribution that you make, the challenges you overcome and the sheer hard work that you put in.

We hope that you will look back on your career in teaching with many proud and happy memories and we would love to hear your story as we help you plan the next chapter.

As you begin to look forward, it is our wish to help smooth the way for you to enter this new phase in your life, whatever it holds and wherever it may take you. We aim to apply the same level of professionalism, diligence and commitment in our work with you as you have done in yours.

Our experience, gained over 130 years of providing financial planning support to the teaching profession, tells us that many teachers have a lot of questions as they near retirement.

This guide seeks to answer the most common of those questions, provide you with a simple explanation of what you can expect from your pension scheme and point out the financial planning decisions you should be considering now.

Please note that this guide is aimed at teachers who joined the Teachers' Pension Scheme before 1 January 2007.

Over the next few pages, we will try to answer the following questions

- ✓ What are the benefits of the Teachers' Pension Scheme?
- ✓ How much pension will I get and what lump sum can I expect?
- ✓ How can I top these benefits up?
- ✓ What if I have left it too late to plan ahead?
- ✓ What happens if I wish to retire early?
- ✓ What happens if I wish to take part of my pension but carry on working?
- ✓ What happens if I wish to go back to teaching after retirement?
- ✓ When and how do I apply for my pension?
- ✓ What other financial plans should I be making?
- ✓ Why should I choose Teachers Assurance?
- ✓ Where do I go for more help?

What are the benefits of the Teachers' Pension Scheme?

The Teachers' Pension Scheme is known as a "final salary" scheme. This means that you contribute towards the scheme each month in return for a pension at retirement, which is based on your salary and your length of service.

- In addition to your contribution, your employer also makes a substantial contribution towards the cost of your pension benefits.
- When you retire, the Teachers' Pension Scheme provides you with a guaranteed, regular, taxable income for the rest of your life. This income is index-linked to protect its value against the effects of inflation.
- At retirement, the scheme will also provide you with a tax-free cash lump sum.
- If you become too ill to work, you may receive your pension early.
- Should you die before retirement, the scheme will pay a lump sum and may also pay a pension to your family or dependants. Should you die after retirement, the scheme may also provide a pension to your family or dependants.

Please note that all full time teachers are automatically members of the scheme unless they elect to opt out. Part-time teachers who have started a new contract on or after 1st January 2007 will automatically become a scheme member.

If you are a part time teacher and your current contract commenced before 1st January 2007 and you have not previously elected to join the scheme, you will not automatically become a scheme member, but you can still join by making an election to Teachers Pensions.

How much pension will I get and what lump sum can I expect?

Pension

To determine your pension income, the Teachers' Pension Scheme takes into account 1/80th of your Final Average Salary* for every year that you have worked. You will need a minimum of 2 years' membership of the Teachers' Pension Scheme to qualify for pension benefits.

This can be expressed as follows:

$$\frac{\text{Number of years service}}{80} \times \text{Final Average Salary*} = \text{Pension per annum (before tax)}$$

Example

A teacher joins the scheme aged 22 and retires at 60 on a final "average" salary of £33,000.

Pension $38/80 \times £33,000 = £15,675 \text{ p.a. (before tax)}$

Standard Lump Sum $£15,675 \times 3 = £47,025 \text{ (tax free)}$

Highest Lump Sum $£83,972 \text{ which reduces the pension to } £12,597 \text{ p.a (before tax)}$

The pension will be taxable, in the same way as earned income and the normal retirement age is 60.

Standard Tax-Free Cash Lump Sum

Your standard tax-free pension lump sum (Standard Pension Commencement Lump Sum) will be equal to three times the amount of your Pension before tax.

Higher Tax-Free Cash Lump Sum

Following a change to the pension rules, it is now possible to take up to 25% of the capital value of your retirement benefits as a tax-free lump sum. This figure will be higher than the standard tax-free cash lump sum shown above. If you do this, your pension will be permanently reduced by an appropriate amount.

You do not have to take the maximum 25% of the capital value of your retirement benefits – you can choose a lump sum between this figure and the standard lump sum if you prefer. This option involves a more complex calculation an example of which is shown below.

NOTE: The tax rules could change in the future.

Final Average Salary

Your pension is based on the higher of either: -

- The average salary of the best consecutive 3 years in the last 10, revalued in line with the Retail Price Index each year up to April 2011 when it will be revalued in line with the Consumer Prices Index; or
- The pensionable salary received in the last 12 months before retirement.

There are however restrictions in place where there have been significant increases in salary in the run up to retirement.

Ready Reckoner

To work out your likely pension and standard lump sum, complete the boxes below:

No. years of service (from joining to age 60)	(A)
Final salary	(B)
Pension : Divide (A) by 80 and multiply the answer by (B)	(C) Pension per annum (before tax)
Standard Lump Sum : Multiply (C) by 3	(D) Standard Lump Sum

If it's looking like your annual pension is not going to cover your anticipated outgoings, then read on.



If you have grand plans for your retirement, you should start thinking about 'topping up' your standard benefits now.

How can I top up my benefits?

If you feel that your pension and lump sum will not be sufficient to meet your requirements in retirement you have a number of options:

First, you need to determine whether you require a bigger lump sum (capital) or a greater amount of income in retirement.

If you require more income

The option to purchase Past Added Years is no longer available although if you elected to do this before the end of 2006, this will still be honoured.

Instead, you can now buy a fixed additional amount of pension income of between £250 and £6,000 per annum. You can choose to pay for this additional benefit by either lump sum or regular deduction from your salary. These deductions are made before your salary is taxed so you effectively receive tax relief on your contribution at the highest rate at which you pay income tax.

If you have questions relating to your pension or retirement planning, call our expert team on **0800 056 0563** and they will demystify teachers' pension arrangements.

Alternatively, contact the Teachers' Pension Scheme on Tel: **0845 6066166** or visit the website at **www.teacherspensions.co.uk**

If you require a lump sum

You can give up part of any additional pension benefit you buy in exchange for a tax-free lump sum. If you wish to invest to create a bigger lump sum in retirement there are various options available to you. The best option for you will depend on a number of factors including:

- Your timescale
- Your attitude to investment risk
- Your tax position
- The nature of any other investments you already hold
- Whether you wish to invest a lump sum or a regular amount for capital growth

At Teachers Assurance, in consultation with our customers, we have designed a range of products that are specifically tailored to the needs of teachers.

We offer a range of savings plans and lump sum investment plans that might prove suitable for you, including Unit Trusts, Individual Savings Accounts (ISAs), Bonds, Guaranteed Savings Plans and Tax Free Savings Plans.

We also offer a straightforward range of fund choices, so whether you prefer to invest in a cautious, balanced, adventurous or ethical way, we have a simple solution for you.

To get more information visit our website at **www.teachersassurance.co.uk**. Alternatively if you would like support call our Customer Support Team free on **0800 056 0563**.

What happens if I wish to retire early?

You can choose to retire from age 55 onwards. Your pension will be actuarially reduced to take account of the fact that it's likely to be paid for longer. The earlier you retire, the lower your pension will be.

Example

A teacher joins the scheme aged 22 and retires at 55 on a final "average" salary of £33,000.

Pension	$33/80 \times £33,000 \times 0.794$ (reduction factor) = £10,808 p.a. (before tax). + tax free cash sum of £32,424
Standard Lump Sum	$£13,612 \times 3 \times 0.794$ (reduction factor) = £32,424
Highest Lump Sum	£57,899 which reduces the pension to £8,686 per annum

To obtain a specific personal calculation, use the online Pension Calculator at www.teachersassurance.co.uk/tools/pension-calculator. You can calculate exactly how much you're likely to receive depending on when you choose to retire.

What happens if I wish to take part of my pension but carry on working?

This is known as "phased retirement" and subject to your employer's permission, you can choose this option from aged 55 onwards, whereby you can draw up to 75% of your pension and still work and continue to make contributions to the scheme. You must reduce your salary by at least 20% for a period of no less than 12 months. The part of your pension that you draw will be actuarially reduced as you are taking it early.

What happens if I wish to go back to teaching after I have retired and drawn my pension?

You are able to work as a teacher and make additional pension contributions after retirement, but you must be careful that your earnings plus your annual pension do not exceed your “salary of reference”. Your salary of reference will be shown on your statement of benefits sent to you when you retire and is based on the highest salary you earned either in the last 12 months you were working or in the best three years of the last ten years.

If you earn more than your salary of reference in any tax year, your pension will be stopped for the rest of that tax year. This does not apply if you have taken actuarially reduced pension benefits.

When and how do I apply for my pension?

You must apply for your pension at least 4 months before your intended retirement date. You can get a form from your employer or download one from the Teachers’ Pension Scheme website at www.teacherspensions.co.uk.

What other financial plans should I be making?

There are other financial consideration when planning your retirement these include:-

- Savings for yourself - choose from a variety of savings and investment plans to pay out a lump sum so you can afford to retire in style.
- Buildings and contents insurance – revising your cover to take advantage of discounts available to retired teachers
- Life assurance – bridging the gap between retirement and when you can draw income from any invested lump sums (to protect your spouse or partner from a drop in income in the event of your death)
- Saving for your children or grandchildren – tax efficient savings plans to help give someone you love a start in life.
- Mortgage planning - revising mortgage arrangements that continue into retirement to save money

Your home is at risk if you do not keep up repayments on your mortgage.

If you would like to find out more visit our website at www.teachersassurance.co.uk or call our Customer Support Team free on 0800 056 0563.

Why should I choose Teachers Assurance?

Our credentials

Teachers Assurance has been looking after the financial interests of education professionals and their families for over 130 years.

As a member-owned mutual, friendly society, we have no shareholders so the only people that benefit from the profits we make as a company are our members. Should you choose to invest in one of our with-profit funds, you too will become a member of Teachers Assurance.

Our service

You can get the information, education and support you need either from our website at www.teachersassurance.co.uk or by calling our Customer Support Team free on 0800 056 0563

Our products

We offer a bespoke range of competitively priced, easy to understand savings and investment plans.

To complement our range, we also offer products from a carefully selected panel of companies.

Our aim is simple - to provide you with straightforward value for money and clear, fair information.

We can provide support and information on Investments, Savings, Protection and Pension products from Teachers Assurance and selected third party providers.

Where do I go for more help?

Teachers Assurance

To use our free online Pension Calculator, as well as obtain further information, education and support visit our website at www.teachersassurance.co.uk or call our Customer Support Team free on 0800 056 0563.

Teachers' Pension Scheme

To obtain further information or accurate illustrations of your benefits:

Address: Teachers' Pensions, Capita Hartshead, Mowden Hall, Darlington, DL3 9EE

Telephone: 0845 6066166

Website: www.teacherspensions.co.uk

If you are in any doubt whether the products detailed in this Guide are suitable for you, you should contact an Independent Financial Adviser. You can find details of your local Independent Financial Adviser by visiting www.unbiased.co.uk. Please note, you may be charged for advice.

Teachers Assurance

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or call our Customer Support Team free on

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Teachers Assurance

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